Company Analysis as at March 31, 2012

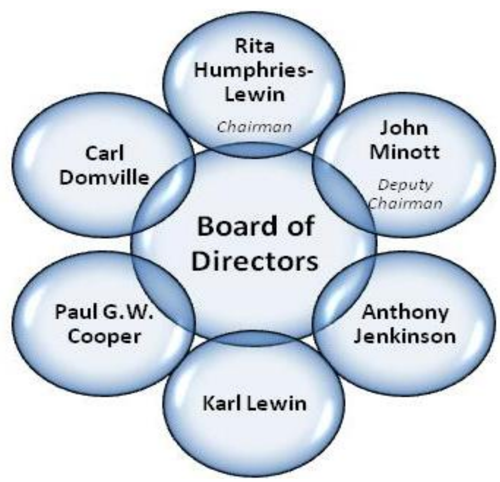
Company Overview

Barita Investments Limited (BIL), incorporated over three decades ago, stands as one of Jamaica's longest operating brokerage houses. The company has evolved significantly over the years under the direction of its founder and current Chairman, Rita Humphries-Lewin, and now serves a wider clientele through extension of its operations outside of Kingston. Since inception, BIL has seen the emergence of two subsidiaries: Barita Unit Trusts and Barita Portfolio Management Limited (BPML). BPML was later rebranded as BPM Financial and no longer operates as a part of the Barita Group. Barita offers a range of financial products and services including: fixed income and equities services, investment research, asset management and cambio services.

Vital Statistics as at March 31, 2012	
Recommendation	HOLD
Industry	Finance
Current Stock Price	$3.58
Shares Outstanding ('000)	445,877
Trailing EPS	$0.49
Projected EPS	$0.56
Trailing P/E	6.07X
Historical P/B	0.83X
Book Value	$4.00
Target Price	$3.83

Board of Directors

BIL has a six (6) member board of directors that is charged with the responsibility of managing the overall strategic and financial direction of the company. Collectively, they bring to the table experiences which span a variety of industries. The board includes four (4) independent directors, just below the 75% stipulated by global best practices recommendation for good corporate governance.



	R. H.-Lewin	J. Minott	A. Jenkinson	C. Domville	K. Lewin	P. Cooper
Finance						
Retail & Commerce						
Real Estate						
Legal Services						
M&A						
Manufacturing						
Communication						

Concentrated Ownership

As at the last financial year end (FYE), the ten (10) largest shareholders held approximately ninety percent (90%) of total shares outstanding. Such concentrated ownership has resulted in low liquidity levels for the stock.

Further, over eighty percent (80%) of shares outstanding are owned by directors and connected parties. This may be viewed in a positive light as it suggests that the directors have a vested interest in ensuring the smooth running of the company. That said, such concentrated ownership could create corporate governance issues, particularly for minority shareholders as their needs may be treated as secondary.

Top 10 Largest Shareholders

Shareholder	% Stake
Rita Humphries-Lewin & connected party	76.5%
Karl Lewin	1.2%
John Minott	1.0%
George William Cooper & connected party	1.2%
Directors and connected party total	***80.0%***
Peta-Rose Hall	6.1%
First Caribbean International Securities Limited a/c B.U.T.	2.1%
Monica L. Cools-Lartigue & connected party	1.0%
Yvonne Shaw	0.9%
Agnes Barbara Humphries	0.9%
Gloria Omphroy	0.7%
Total	***91.6%***

Source: BIL 2011 Annual Report

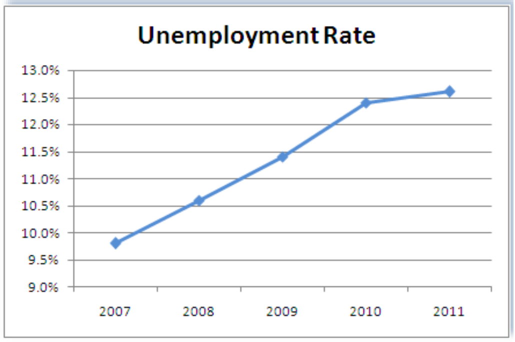
Industry Analysis

During the 2011 fiscal year, the Finance and Insurance Services industry contributed 10.5% to total real GDP; a 0.3% decline compared to the prior year. Real value added by this industry fell 1.2% year-over-year, due to reduced net interest income (NII) following the Jamaica Debt Exchange (JDX) in 2010 which led to lower spreads; anemic growth in loans; and increasing non-performing loan portfolios. Unemployment levels increased 0.2% year-on-year to 12.6%, significantly impacting the sector through reduced consumer's wealth and presenting negative implications for future economic growth.

Historically, funds under management (FUM) have been on an upward trajectory, peaking at $ 859.9B in 2009[1]. In 2010, a 1.1% year-over-year decline was reported, partially attributed by the lower interest rates and investors quest for higher yielding assets which they found in the alternative investment schemes. Subsequently, FUM growth rebounded 5% to close 2011 at $833.4B. At its last FYE, Barita held approximately 3% market share of aggregate FUM across listed securities companies. Given its small size, the company may have to offer higher rates to drive FUM growth. This poses a threat to its core business, particularly in a declining interest rate environment.

The industry's current business model is built primarily on the generation of NII by raising funds through client repurchase agreements and using these funds to purchase investment securities. This is augmented by commission and fees received

Unemployment Rates Climbing

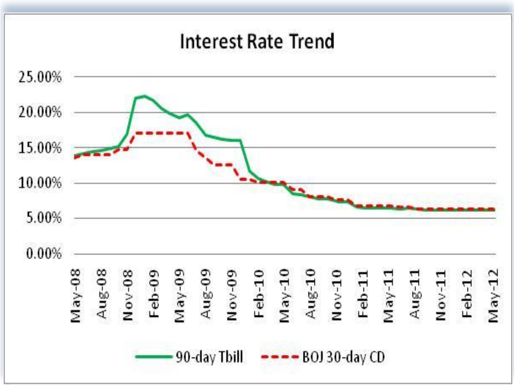


Source: Economic & Social Survey Jamaica 2011

Barita currently holds the smallest share of the Securities market

Source: Financial Services Commission Jamaica

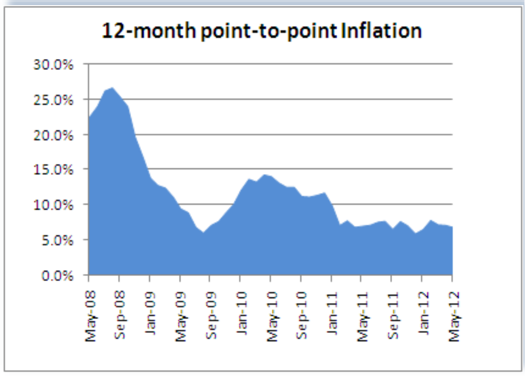
Interest Rates at historical Lows



Source: Bank of Jamaica

[1] Data sourced from the Financial Services Commission (FSC)

Relative Stability in Inflation Rate



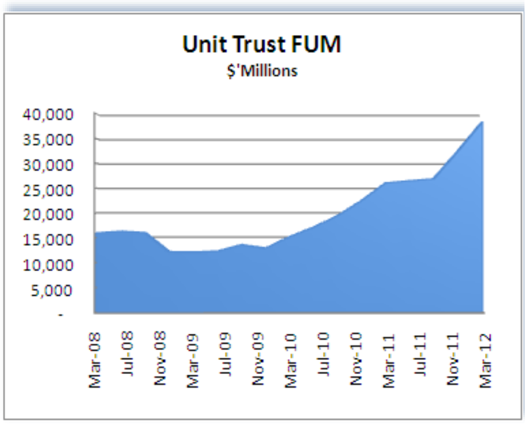
Source: Statistical Institute of Jamaica

Capital Base Remains Strong

Key Capital Ratios	FSC Requirement	Barita's Achievement
Capital to Risk Weighted Asset	10%	17%
Capital to Total Asset	6%	10%
Capital Base to Tier 1 Capital	50%	100%

Source: BIL Q2 2012 Unaudited Financials

Unit Trust Funds under Management grows exponentially



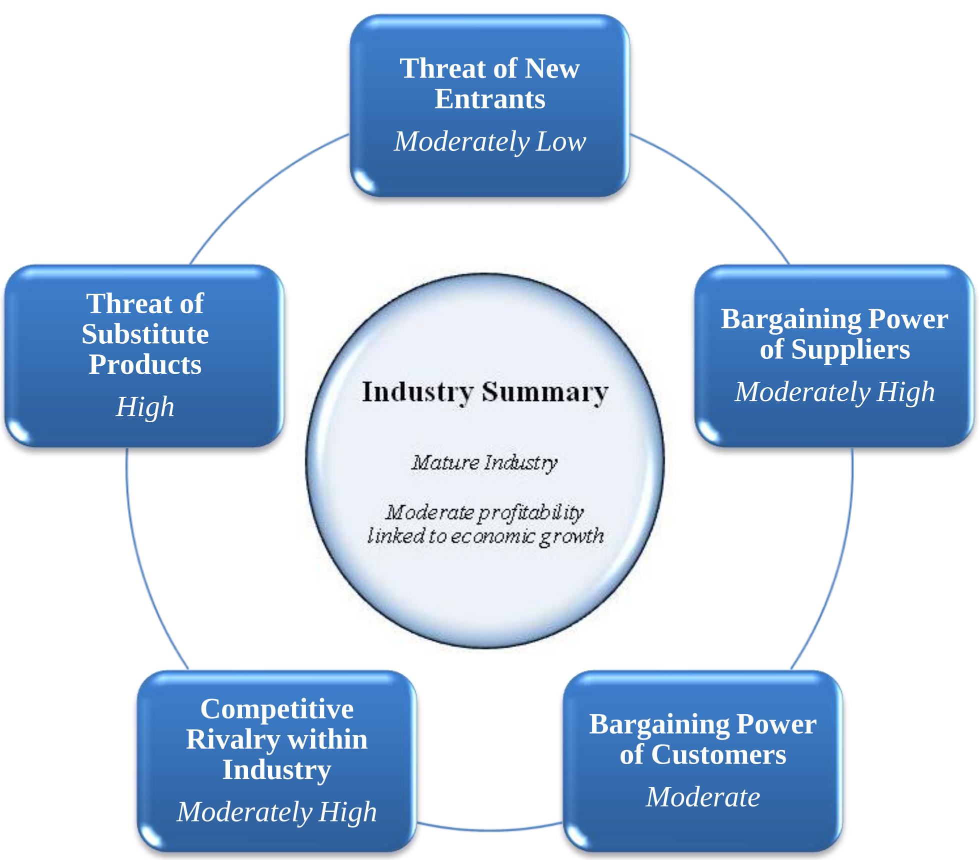
Source: Financial Services Commission Jamaica

for the management of collective investment schemes, structured financing for corporate entities as well as the execution of fixed income and equity trades. Given the reduction in interest rates, Barita and other investment companies have noticed large contractions in interest revenue. Market expectations indicate that interest rates have bottomed out at current levels and as such, it is believed that the rate of decline in interest expense is likely to have bottom. Together these factors have adverse implications for the growth of Barita's NII. However, expectations are for greater focus to be placed on generating fee income in the near term.

As a condition of the prior agreement with the IMF, the Financial Services Commission (FSC) introduced multiple reforms to reduce systemic risk in the securities dealers market and strengthen the overall financial sector. These changes are expected to enhance capitalization and liquidity through adjustments in the derivation of regulatory capital, risk weighted assets, margin requirements as well as asset concentration. This requirement places smaller firms like Barita under added pressure, presenting the challenge of raising additional capital and emphasizing the need to grow it's off balance sheet business. Barita has responded well to the challenge and has exceeded all regulatory capital requirements as at March 2012.

The FSC has also lifted the moratorium on the registration of new unit trusts schemes and suspended the issuing of licenses to securities dealers with an intermediation business model. This regulatory shift is geared at encouraging brokerages to grow fee income through off balance sheet products. This, together with clients' search for higher yielding assets, has resulted in significant growth in the Assets under Management (AUM) of collective investment schemes (CIS). Further expansion in CIS should negatively impact the overall profitability of the industry. This as the spread earned on CIS is much smaller than that of the repo business. Given the current financial environment and the increased pressure being introduced by regulators, larger companies are expected to explore inorganic growth options through acquisitions and there could be further consolidation in the industry.

Porter's Five Forces Model

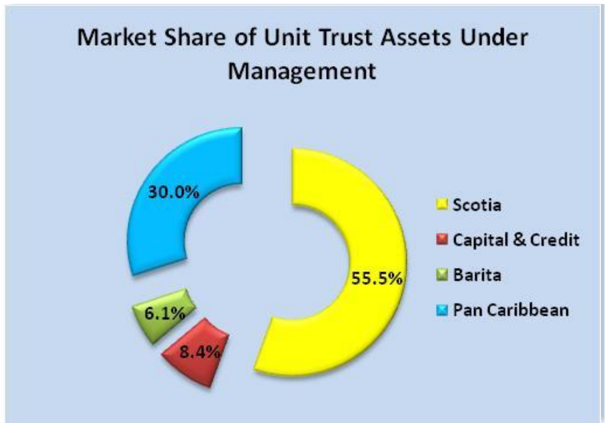


Threat of New Entrants *Moderately Low*	• Entry to the industry has been restricted by capital and regulatory requirements, strong brand equity of larger players, as well as the suspension of the new issuance of licenses to institutions with an intermediation model. However, the lifting of the moratorium on the registration of new unit trusts schemes will lead to the emergence of new fund managers seeking to increase fee income and grow their off-balance sheet business.
Threat of Substitute Products *High*	• Financial products offered are homogenous due in part to the restrictive regulatory requirements and as such, necessitate the speedy replication of new products by peers in order to remain competitive and sustain market share.
Bargaining Power of Suppliers *Moderately High*	• The main supplier of investment opportunities is the Government of Jamaica (GOJ) whose assets are sold under repurchase agreements and others directly to clients. The bargaining power of suppliers is high given regulatory restrictions which limit investments in certain asset classes. Additionally, as the government continues to monitor its debt exposure, reduced GOJ offerings could limit investment opportunities.
Bargaining Power of Customers *Moderate*	• The industry appeals to a wide variety of corporate and retail customers which reduces client concentration and bargaining power. However, this is somewhat tempered by product standardization which has eliminated competitive advantages for market players while strengthening customers' ability to negotiate.
Competitive Rivalry within Industry *Moderately High*	• Low product differentiation and minimal switching costs has led to high rivalry amongst industry players.

Business Strategy

With asset yields declining, Barita has directed its focus towards the generation of revenues through the offering of non-interest income based products. The company has already charged its sales team with the responsibility of shifting focus from growth in its repo book; an attempt to increase its presence in the unit trust market of which it holds a 6.1% market share as at March 2012. The decision to redirect the company's business model to fee-based products will impact profitability as fees earned on CIS are less than margins returned on repos. As such, Barita will be faced with the challenge of increasing revenues through growth in volumes despite its small distribution network. Management may have to explore strategic partnerships to distribute its products through other entities to expand the company's reach, for example through credit unions.

Barita intends to actively drive revenues through the structuring of more corporate debt. The newly acquired pension fund license should also allow the company to enter this market, creating new opportunities and providing an avenue through which revenues can be bolstered over the medium term.



Source: Financial Services Commission Jamaica

Trading gains continue to improve and will remain a strong focus for the company going forward. With interest rates settling at historical lows, the ability to sustain profitability through this medium will decline. Further, the company should be careful not to jeopardize future sustainability by myopically focusing on trading gains to drive current profit.

SWOT Analysis

Strengths

Barita has an established foothold in the Unit Trust market: Given the regulatory shift towards off-balance sheet products, the company has the ability to respond ahead of many of its peers who need to develop their own schemes.

Experienced Management Team

Weaknesses

High dependence on revenues generated from the repo business: The shift to grow business through off-balance sheet products will lead to the significant narrowing of margins and consequently added pressure in growing NII.

Brand relatively weak: Given that clients are demanding greater safety for their investments, Barita may encounter higher costs to compete with larger firms. This includes customers demanding higher return for their investments which could result in contracting spreads.

Small distribution channel: With only three (3) branches, Barita's market reach is significantly limited compared to its larger peers.

INTERNAL

Opportunities

Product diversification: Given the low interest environment, corporate entities are now looking to raise funds through the structuring of corporate debt. This provides an opportunity for Barita to generate fee income. Low interest rates have also created a platform for growth in alternate investments options as investors seek more attractive returns.

Expansion of the Unit Trust segment of the business: With the exponential growth in the Unit Trust market, the company should look to improve on its 6.1% market share given it already has a foothold in the market. The stronger demand for CIS also provides the opportunity for BIL to diversify its suite of fund offerings.

Recent acquisition of pension fund license: Given the increased cost of providing pension benefits, Barita, through efficient pricing, can leverage the demand for affordable pension fund management.

Threats

Uncertain economic environment: Given the impending renewal of the IMF agreement, there is heightened uncertainty and speculation in the market. This uncertainty impacts the way investors view the market and could reduce client's investable income. Further, asset prices and in turn portfolio market values may be negatively impacted by the looming uncertainty.

Weak economic growth and high unemployment rate: This has adverse implications for consumer wealth and could significantly reduce growth opportunities.

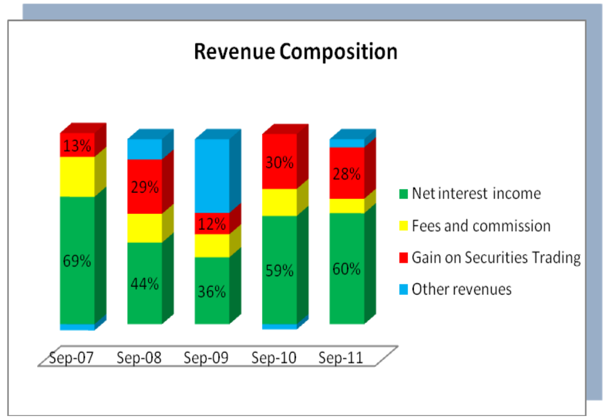
Increased competition, especially from larger players with stronger brand equity and a significantly wider distribution network.

Low interest rate environment should result in declining spreads for the company's core business.

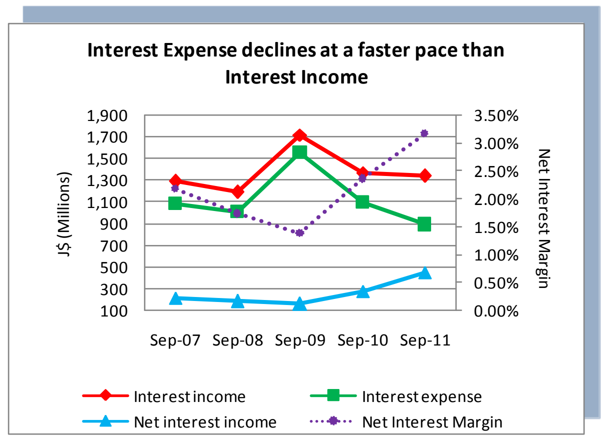
EXTERNAL

5-year Historical Performance

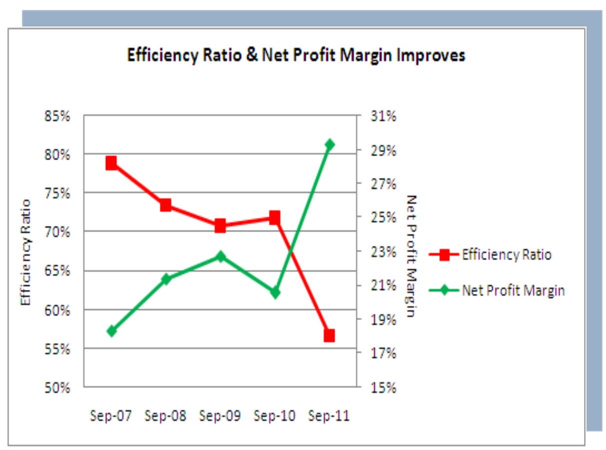
Barita's net profit in the last five years has grown at a Compound Annual Growth Rate (CAGR) of 40.9%. The strong growth in earnings during the period was significantly boosted by the Net Profit outturn in FY2011 which grew by 125% to $219.1M as a result of higher net interest income and stronger trading gains. With the lower interest rates post JDX, Barita has been able to reduce interest cost faster than the decline in asset yields. This has resulted in a gradual improvement in net interest margins over the last five years, from 2.18% in FY2007 to 3.17% in FY2011.



Lower interest rates also provided opportunities to realize capital gains from bond trading. This was strongest during the last financial year, where Barita reported a 48.6% year-over-year increase in trading gains which contributed 28% to total revenues (13% in 2007). Fees and commission on the other hand has remained relatively stable over the last five years; an income source which is expected to become more vibrant given the shift in industry dynamics. Barita's fixed income unit trust has the second highest growth rate in the industry and as such should attract great demand from customers as this line of business grows.



Total operating expenses has grown at a CAGR of 15.4% over the last five years. However, faster revenue growth has led to improved efficiency and profit margins. This is particularly important in an environment in which there is likely to be greater pressures to grow revenues.



DuPont Analysis

Dupont Analysis	FYE 2007	FYE 2008	FYE 2009	FYE 2010	FYE 2011
Net Profit Margin	18.34%	21.36%	22.72%	20.57%	29.29%
Asset Turnover	0.03X	0.04X	0.04X	0.04X	0.06X
Financial Leverage	10.82X	12.89X	14.63X	12.27X	9.43X
ROE	6.18%	10.97%	12.62%	9.87%	15.22%

Return on equity (ROE) increased to 15.22% in FY2011, compared to 6.18% in FY2007. A DuPont analysis showed a decrease in financial leverage. As such, the company's performance was due primarily to improvements in net profit margin. The decline in financial leverage comes as a result of large year-over-year increases in unappropriated profits and fair value reserves.

Peer Assessment

Comparative Statistics as at last Financial Year End					
Investment House	FUM (J$ Bn)	Efficiency Ratio	ROE	NPM	Trailing P/E
BIL	**12**	**57%**	**15%**	**29%**	**6.07X**
JMMB	107	54%	22%	37%	6.48X
MIL	17	71%	8%	29%	8.85X
PCFS	54	43%	15%	43%	8.11X
SIJL	132	32%	20%	51%	6.12X
Industry Average	***64***	***51%***	***16%***	***38%***	***7.13X***
Barita's Ranking	**5th**	**4th**	**3rd**	**4th**	**5th** [2]

- Barita compares unfavourably to other players in its industry, ranking in the lower half when reviewing performance and profitability metrics
- The company has consistently outperformed its counterpart of a similar size (MIL)
- Barita ranks third with regards to ROE, reflecting moderate profitability despite a small capital base
- Improvements in efficiency will be necessary if the company should compete with top players such as SIJL and JMMB

[2] Metrics calculated using audited financials for each company as at its last FYE

YTD 2011/12 Performance

YTD 2011/12 ($'000)	Mar-11	Mar-12	Change
Net interest income	215,417	258,208	↑
Fees and commission	23,164	41,745	↑
Gain on Securities Trading	45,042	123,387	↑
Total Operating Expenses	166,843	225,557	↑
Net Profit for the Year	99,395	143,061	↑
Efficiency Ratio	56.89%	51.57%	↑
Net Profit Margin	33.89%	32.71%	↓

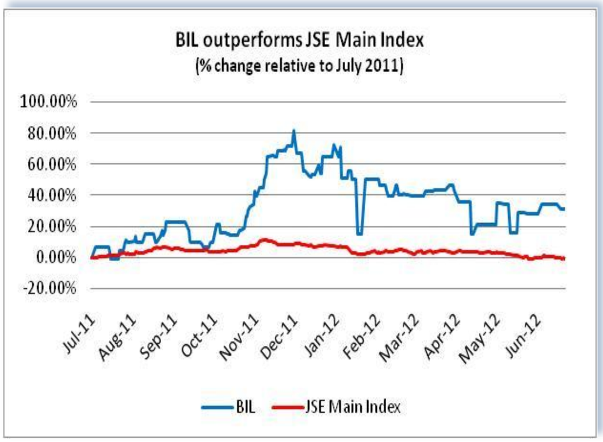
Poised for a third year of consecutive growth, Barita's YTD financials as at March 31 2012 showed net profit of $143.1M; a 43.9% increase when compared to the similar period last year. This increase was supported by strong growth in NII, trading gains and fee income of 19.86%, 173.9% and 80.2% respectively. Interest income continues on its downward trajectory as the company's assets portfolio continued to re-price at the reduced market rates. However, prudent cost management strategies have allowed interest expense to decline at a faster pace. Significant increase of 35.2% in operating expenses is attributable to higher advertising and public relations costs, a strategy engaged to boost the company's visibility, as well as a spike in staff cost following new Human Resources' (HR) initiatives. Despite these increases, Barita was able to improve its efficiency ratio to 52% relative to 57% at the 2011 FYE. Nonetheless, net profit margin declined to 32.71% compared to 33.89% a year earlier – a result of higher taxation.

Balance Sheet

Barita's asset base contracted 2.0% to $14.2Bn year-on-year, primarily resulting from a 51% reduction in securities purchased under resale agreements. Liabilities declined 3.8% to $12.4Bn, propelled by a 4.4% decline in FUM. This reflects the strategic shift in the company's focus. Shareholders' equity climbed 12.6% to $1.8Bn (BVPS: $4.00) from the 47.6% increase in retained profits.

Technical Analysis

Recent Statistics as at June 29, 2012			
Stock Code	**Fiscal Year End**	**Last Traded Price**	**Market Capitalisation**
BIL	**31-Sep**	**$3.58**	**$1,593,106,529.92**
52-week high/low	**DPS 2010/11**	**R^2**	**Adj. Beta (24 months)**
$4.95/$2.70	**$0.04**	**0.022**	**1.127**
Year-to-date % change	**Quarter-to-date % change**	**Month-to-date % change**	**% change over last 12 months**
-23.99%	**-8.21%**	**2.29%**	**31.62%**

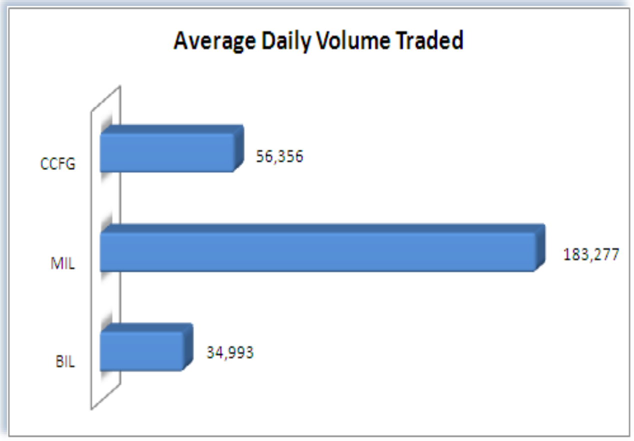


Source: Jamaica Stock Exchange

Strong Capital Gains

Over the last 12 months, BIL was one of the Stock Exchange's top five (5) performing stocks with its price increasing by 31.62% relative to the JSE Main Index which returned -1.25%. The strong performance of the stock price comes against a year of record earnings for the company coupled with a rally in the stock market during the latter months of 2011.

With a beta of 1.127, BIL appears to be more risky than the JSE Index on a whole. This metric, however, is skewed by the infrequency with which the stock has traded.

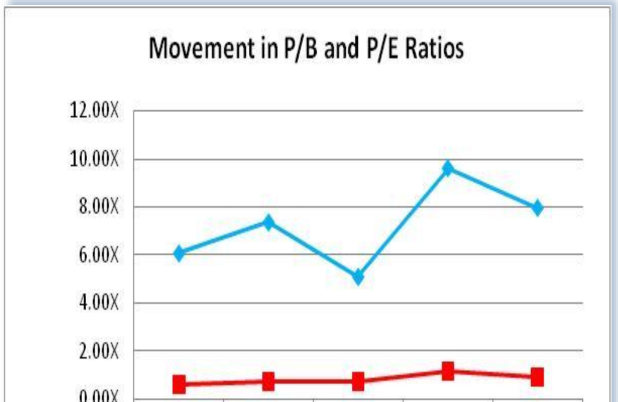


Source: Jamaica Stock Exchange

Low Liquidity

Average daily volume was approximately 35K during the period under review representing 0.6% of the main market's average daily volume. Activity was low with the stock trading 121 days out of a possible 254 days. The concentrated ownership of the stock means that Barita will be more illiquid relative to its peers and could trade with wider bid ask spread on average.

Bid/Ask as at June 29, 2012			
Bid Volume	Closing Bid	Closing Ask	Ask Volume
6,300	$3.15	$3.50	23,000



	Mar-11	Jun-11	Sep-11	Dec-11	Mar-11
P/E Ratio	6.06X	7.35X	5.08X	9.61X	7.96X
P/B Ratio	0.63X	0.76X	0.76X	1.19X	0.96X

Improved Investors Sentiments

Over the year, BIL's P/E and P/B ratios have generally trended upwards. This indicates that the stock is enjoying improved investor sentiment as a result of its favourable financial performance.

Source: Bloomberg

Relative Strength Index (RSI)

As a rule of thumb, a RSI between 30 and 70 indicates that a stock is neither overbought nor oversold. Barita has an RSI of 47.73 and as such, gives support to a **HOLD** recommendation.

Earnings Projections

- As interest expense continues to re-price at a faster pace than interest revenue, N.I.I. is expected to grow to $499.7M. This rate of decline in interest expense, however, is expected to subside as interest rates stabilize at historical lows.
- Non-interest revenue is expected to increase to $362.4M predicated on growth in trading gains and fee income. Barita has a long USD position and should realize improved FX gains from further devaluation in the local currency.
- New HR and advertising initiatives have led to significant increases in operating expenses and are expected to follow through for the remainder of the year, resulting in a 15.6% increase to $489.4M.
- The aggregate impact of these factors should result in net profit approximating $251.6M (EPS: $0.56) by the end of FY 2011/12.

Valuation

Relative valuation methods were used to determine an intrinsic value of the stock. Of note, absolute valuation methods such as Residual Income Method are inappropriate given that Clean Surplus Accounting assumption does not hold as fair value reserves represent a significant portion of stockholders' equity.

Method of Comparables

Investment House	BIL	JMMB	MIL	PCFS	SIJL	Industry Average
Trailing P/E	6.07X	6.48X	8.85X	8.11X	6.12X	7.13X

Currently, the industry[3] average P/E is 7.13X. Applying this multiple to the forward EPS of $0.56 yields a projected price of $3.99.

[3] Peers selected based on company's business model

Book Value Approach

Barita, like other companies of a similar size such as MIL generally trade at a price lower than their book value due to historically low ROE relative to its cost of equity. BIL has a two year historical P/B[4] of 0.83X. Applying this multiple to its projected book value per share of $4.43 gives a forward price of $3.67.

Recommendation

Both valuation techniques indicate that the stock is undervalued at its current market price. Using the P/E and Book Value approach, the average forward price of the stock was projected to be $3.83; a 7% premium to its last traded price. Nevertheless, the stock is fairly illiquid and as such may not fully realize anticipated capital gains over the near term. As such, a **HOLD** recommendation is being placed on shares of BIL based on fundamental and technical analysis. The current RSI of 47.73 supports this recommendation. The table below shows the profile of investors for which this stock is best suited:

	Conservative	Moderate	Aggressive	Rationale
Risk Profile		✓	✓	Given its high beta and illiquidity, BIL is not recommended for conservative investors
	Short	**Medium**	**Long**	**Rationale**
Investment Horizon			✓	No significant capital appreciation is expected over the short term
	Low	**Medium**	**High**	**Rationale**
Reliance on Frequent Income Stream	✓			No established dividend policy. 2-year average historical payment of 17% of earnings. Annual dividend payments compared to quarterly payments by peers. Low projected dividend yield of 2.7%.

[4] Calculated using Book Value per Share at the end of each quarter over the last 2 years.

Outlook

Anemic economic growth is being posited for the upcoming year, which may see Barita facing increased pressure in growing its business. This lackluster growth projection comes as a result of anticipated declines in output across the Latin American and Caribbean (LAC) region coupled with the weakness of the US and Euro export markets on which Jamaica is highly dependent. The company, despite having great experience in the management of collective investment schemes, will face increased competition as more players enter the unit trust and mutual funds market. The company will also realize narrower margins as it moves to drive income from CIS and hence will need to grow volumes. Having a small distribution network will increase the challenge of growing volumes unless the company can enter into strategic partnerships with entities such as credit unions to expand its market reach. Product development/corporate finance activities will become more important in the quest for alternate revenue streams however, its small size and weak brand equity relative to its peers could impede its efforts in this area.

Appendix

Five Year Historical Performance

Barita Investments Limited ($'000)	Financial Year End				
Income Statement	**Sep-07**	**Sep-08**	**Sep-09**	**Sep-10**	**Sep-11**
Interest income	1,289,395	1,189,474	1,712,835	1,367,953	1,337,377
Interest expense	(1,080,733)	(1,006,995)	(1,555,970)	(1,091,698)	(888,745)
Net interest income	**208,662**	**182,479**	**156,865**	**276,255**	**448,632**
Other operating revenue:					
Fees and commission	65,199	64,451	54,052	68,949	58,546
Dividend	5,091	4,080	26,635	5,869	6,758
Foreign exchange trading gains/(losses)	(18,776)	39,136	144,150	(24,160)	12,019
Gain on Securities Trading	39,100	121,589	50,157	139,896	207,852
Other revenues	3,621	2,236	2,164	5,104	14,146
Total Operating Revenue	**302,899**	**413,971**	**434,023**	**471,913**	**747,953**
Staff costs	(133,053)	(158,457)	(175,809)	(182,628)	(207,715)
Administrative costs	(105,756)	(145,227)	(131,194)	(156,196)	(154,185)
Impairment of available-for-sale investment					(61,277)
Total Operating Expenses	**(238,809)**	**(303,684)**	**(307,003)**	**(338,824)**	**(423,177)**
Profit before Taxation	64,089	110,287	127,020	133,089	324,776
Taxtaion	(8,545)	(21,857)	(28,395)	(36,003)	(105,697)
Net Profit for the Year	**55,544**	**88,430**	**98,625**	**97,086**	**219,079**
Earnings Per Share (J$)	**0.88**	**1.41**	**0.24**	**0.22**	**0.49**

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